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RUCNDT/USMISSION USUN NEW YORK PRIORITY 3211
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C O N F I D E N T I A L SECTION 01 OF 05 KATHMANDU 000563

SIPDIS

NEW DELHI FOR SCA DAS FEIGENBAUM

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TAGS: [PREL](#) [PGOV](#) [PTER](#) [ECON](#) [EAID](#) [PREF](#) [KDEM](#) [NP](#)

SUBJECT: NEPAL SCENESETTER FOR SCA DAS FEIGENBAUM

REF: A. KATHMANDU 557

[1](#)B. KATHMANDU 560

Classified By: Ambassador Nancy J. Powell. Reasons 1.4 (b/d)

Summary

[1](#)1. (C) You are arriving in Kathmandu during a historic transition. Nepal will likely complete its two-year long evolution from a kingdom to a republic within days of your arrival, but many other central issues remain unresolved. The Maoists won the largest share of the April 10 Constituent Assembly (CA) vote, and thereby the right to form the next government. The formerly dominant center-right Nepali Congress (NC) is in disarray with Prime Minister Koirala now balking at stepping down, and unwilling to reform his party. The center-left Communist Party of Nepal - United Marxist Leninist (UML) has elected a new leader; carving out a role for the UML in the Maoists' shadow will pose a bigger challenge. The Madhesi parties are divided and will have to reconcile regional demands with their new national roles. Assembly members will be sworn in May 27; the CA sits in full session on May 28. However, disputes over NC, UML and Madhesi demands that the Maoists agree to amend the constitution and disband the Young Communist League could prompt Maoist violence and prevent proper functioning of the CA if the major parties fail to agree soon on formation of a new Maoist-led government. Petroleum prices, food insecurity, poor law and order, and heightened public expectations will pose huge difficulties for any government.

[1](#)2. (C) On the eve of her departure for Washington, Ambassador Powell held the first ever U.S. meeting with Maoist chief, and putative Prime Minister, Pushpa Dahal (aka Prachanda). Your meeting with him will be the second. The Ambassador has already informed Dahal that we will judge the Maoists by their deeds, not their words. Initial indications are that they are prepared to see U.S. assistance to Nepal go forward even if we retain the Maoists for now on the specially designated nationals and terrorist exclusion lists. Ending Maoist violence, protection of human rights, and ensuring the Nepal Army maintains its respect for civilian control are among our chief concerns. Maoist views on Bhutanese

resettlement and Tibetan refugees are also worrisome. The Indians share our preference for a unity government and have said so publicly. The United Nations Mission in Nepal has completed the electoral portion of its mandate and plans to close in July. The Office of the UN High Commissioner for Human Rights will remain. International donors are eager to assist the Assembly in preparing a new constitution, and with outstanding peace process issues.

Kingdom No More

13. (C) One of the few political certainties as you arrive in Kathmandu on May 24 is that Nepal's status as a kingdom is about to end. The once powerful monarchy has been in a state of suspended animation since the first Interim Parliament declared in May 2006 that the country's title would simply be "Nepal." The Interim Constitution, as initially promulgated in January 2007, stripped King Gyanendra of all authority and provided that the first session of the Constituent Assembly (CA) would decide the future of the monarchy, but the third amendment, which was adopted in December 2007 at the insistence of the Maoists, removed the uncertainty. It stated that Nepal would be a federal, democratic republic and that "implementation" of the republic would "be made by the (Assembly's) first meeting." The rout of the committed royalists in the April 10 election (Note: They eked out 4 of the 575 elected seats. End note) sealed the Shah dynasty's fate. The first meeting is scheduled for May 28, with the swearing-in ceremony one day earlier. The abolition of the

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monarchy by the CA is a foregone conclusion. The current debate concerns how soon Gyanendra must vacate the Palace.

Maoists on Top

14. (C) To the surprise of most Nepalis, including the Maoists themselves, the extreme-left Communist Party of Nepal (Maoist) (CPN-M) won the largest share of the vote on April 10. They took half of the 240 first-past-the-post (FPTP) races and almost a third of the 335 proportional (PR) seats, and will control close to 40 percent of the 601-member Assembly. Pre-election violence, primarily by the Maoists, ensured that the election was not completely free and fair, but voter turnout was in excess of 60 percent and the results have been broadly accepted, including by the major international observer groups. Maoist chief Pushpa Dahal (aka Prachanda), 53, has claimed the right to form the next government. After the election, the Maoists reaffirmed their commitment to a coalition government as envisioned by the Interim Constitution. They also made a concerted effort to reassure business leaders and the diplomatic community about their intentions.

But Serious Concerns Remain

15. (C) Many voters cast their ballots for the CPN-M in order to bring the former insurgents into the democratic mainstream. Over the past six weeks, however, Maoist organizations, most notably its militant youth wing, the Young Communist League (YCL), have continued attacks, intimidation and extortion against officials and rival party workers and voters, as well as businesspeople. The YCL already functioned in many districts, with the complicity of the demoralized Nepal Police, as an alternate state security force, and this trend is continuing, and possibly accelerating. Meanwhile, the Maoist leadership has given no indication that they have abandoned their goal of establishing a one-party state. They speak openly of parliamentary democracy as an intermediate state in Nepal's political development and have threatened more protests if they are not allowed to lead the government immediately.

¶6. (C) Octogenarian incumbent Prime Minister (and Nepali Congress President) Girija Prasad Koirala faces no legal requirement to step down as PM, but had promised publicly that he would retire from politics after the CA was seated. Koirala reportedly repudiated that pledge on May 8, stating that he intended to remain active in politics the rest of his life. His party, which has historically been Nepal's dominant political force, is in disarray. The center-right NC managed to win only 15 percent of the FPTP races. Most senior leaders lost. With its 21 percent showing in the PR contest, it will hold roughly 20 percent of the votes in the new Assembly. No one in the top echelons of the party, not even former Prime Minister Sher Bahadur Deuba, is willing to challenge Koirala. The party's rank-and-file, particularly young cadre, are bitter about the mishandling of the election. Koirala has so far ignored calls for internal reform of the party. His daughter Sujata, who is a cabinet minister, appears to be encouraging him to stay in office as long as possible. Others are attempting to persuade the Maoists to make him Nepal's first president.

UML Changes Leaders, Still Faces Challenges

¶7. (C) In contrast, the center-left Communist Party of Nepal - United Marxist Leninist (UML) has already replaced its top boss. General Secretary Madhav Kumar Nepal submitted his

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resignation as soon as it became clear that he and his party had been defeated. On May 15, after two weeks of intense deliberations by the Central Committee, the party's Foreign Department chief, Jhalanath Khanal, 58, was unanimously elected to replace Nepal (Ref A). The UML has scheduled a general convention for mid-November. Its 103 Assembly members, 6 fewer than the NC, will make it the CA's third-largest party. Outgoing Speaker of the Interim Parliament Subash Nemwang is the other prominent leader; he is under consideration to serve as Chair of the Assembly. Khanal's party appears to have borne the brunt of Maoist pre- and post-election violence.

Madhesi Struggle To Reconcile Regional, National Roles

¶8. (C) The CPN-M is not the only party to which the April 10 election gave the popular stamp of approval. The three United Democratic Madhesi Front (UDMF) parties, none of which existed as parties a year ago, together garnered 79 seats in the Assembly. The Madhesi People's Rights Forum (MPRF), led by Upendra Yadav, has 50 seats. The Terai Madhes Democratic Party (TMDP) is second with 20. The Sadbhavana Party (SP) has 9. Although the Front parties share common goals of an autonomous, Madhesi state and inclusion of historically disadvantaged Madhesis in all national institutions, personal conflicts between Yadav and the two other leaders, may reduce their effectiveness. Having made a range of promises, many unfulfillable in the short term, all three now face the challenge of reconciling regional demands with a new national role. They must also be mindful of the constant risk of political and physical attacks from Madhesi extremist groups, who insist on an independent Madhes.

Coalition Struggles

¶9. (C) With a week until the first CA session, senior leaders from the four largest parties have reported that they are close to a deal on most issues involving formation of a new government (Ref B), but the sticking points are significant. The NC, UML and Madhesi parties have all demanded that Maoists join in amending the Interim Constitution (two-thirds of the CA members are required), so a simple majority, rather

than the current two-thirds, can elect and bring down a government. The NC and UML also want to end the current interim arrangement under which the Prime Minister is simultaneously acting head of state; they propose a ceremonial presidency. The disbanding of the YCL is a third demand. The Maoists are balking. Neither side has the prospective votes to compel the other side to concede. How to handle the Maoist People's Liberation Army (of which Prachanda is the supreme commander) is another tricky issue. Leaders of all three of the major non-Maoist parties have proclaimed they will not join a Maoist-led government, but will cooperate with the CPN-M in the Assembly in drafting a new constitution. We are not convinced that is the final word. If coalition negotiations drag on, the Maoists may mobilize mass protests and violence could ensue.

Economic Hardships

¶10. (C) The next government will face immediate economic challenges. Nepal's sole source of petroleum products, the parastatal Indian Oil Corporation, has refused to continue providing those products to Nepal's monopoly supplier, Nepal Oil Corporation (NOC), on credit. Domestic price increases have not kept up with skyrocketing oil prices, with shortages the inevitable result. NOC recently received Nepali Rs 800 million (USD 12 million) from the Finance Ministry, but that was only a brief fix. The current government says it is the new government's responsibility to increase prices. (Note: The Interim Government increased petroleum prices across the

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board in October and raised gasoline prices slightly in December. The Finance Minister told the Deputy Chief of Mission May 16 that the Maoists had opposed his effort to increase prices further shortly before the election. End note.) Food insecurity, particularly, in the western hills, is another acute issue. During their campaign the Maoists promised to raise salaries, provide free health care and education as well as universal employment, but it is far from clear how they intend to deliver. Poor law and order, particularly in the Terai, is another enormous public issue. The NC and UML's failure to significantly improve the day-to-day lives of average Nepalis contributed to those parties' defeat. With another general election looming once the constitution is drafted, the Maoists do not want to make the same mistake.

U.S. Policy and Prachanda

¶11. (C) Post anticipates that Maoist chief Prachanda, as head of the CA's largest party, will succeed G.P. Koirala as Prime Minister. We also anticipate that the CPN-M will control several key ministries, among them possibly Defense, Home Affairs, Finance and Foreign Affairs. The Ambassador's meeting with Prachanda on May 1, on the eve of her departure for Washington for consultations, was the first official U.S. meeting with him. Your session, currently scheduled for May 26, will be the second.

Maoists To Be Judged By Deeds Not Words

¶12. (C) In her May 1 meeting, the Ambassador emphasized to Prachanda and his deputy, Baburam Bhattarai, that the United States would judge the Maoists by their deeds, not their words. She stressed that the U.S. expected the CPN-M to conduct itself as a democratic party, to respect human rights and to end the use of violence. The Ambassador explained that any decision to remove the Maoists from the specially designated nationals list and the terrorist exclusion list would be made in Washington and would be a lengthy process, if it happened at all. She was frank in pointing out that ongoing YCL activities were a violation of the CPN-M's peace process commitments, called into question their intentions

and created a hostile environment for any further changes in U.S. policy. The Ambassador briefed the CPN-M duo on U.S. assistance programs to Nepal and expressed the U.S. interest in continuing those programs, but security was absolutely essential. Prachanda responded favorably.

Other Countries' Views

¶13. (C) India is by far the most important foreign country for Nepal. Despite its surprise over the results, misgivings about Maoist objectives and a long-standing relationship with the NC, the Government of India, in the form of External Affairs Minister Pranab Mukherjee came out quickly after April 10 to reaffirm India's strong support for Nepal's new political configuration. Newly appointed Indian Ambassador Rakesh Sood has publicly urged the formation of a unity government under Maoist leadership. The United Kingdom shares many of our concerns about the Maoists, but its Ambassador has been talking directly with the CPN-M for more than a year. The Office of the UN High Commissioner for Refugees is seeking reassurances to confirm that that a Maoist government would continue to facilitate third-country resettlement of Bhutanese refugees and uphold the gentlemen's agreement which allows Tibetan refugees to transit Nepal to India. CPN-M support for anti-resettlement Bhutanese Communists in the camps is an open secret. There is also ample evidence that Beijing is dissatisfied with the current Nepali government's handling of the Tibetan issue, especially the ongoing protests, and hopes the Maoists will be more

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accommodating.

The Role of the UN

¶14. (C) In his most recent report to the UN Security Council from May 12, Secretary General Moon has stated that he does not anticipate a further extension of the UN Mission in Nepal, which is headed by Ian Martin, when its current mandate expires on July 23. It has completed his electoral assistance and observation functions and monitored the Maoist combatants and Nepal Army through the election. Looking forward, we are concerned that the Nepal Army maintain respect for civilian control. The Office of the UN High Commissioner for Human Rights, led by Richard Bennett, is scheduled to remain through 2009.

Assistance Going Forward

¶15. (C) The major donor countries, which include all the Scandinavians other than the Swedes, the European Commission, Germany, the UK, the U.S., and other organizations such as the UN Development Program, are eager to assist with the upcoming Assembly. Ensuring all of Nepal's citizens and civic organizations have a say in the constitution-drafting process and that the new CA members, many of them from marginalized groups that have no legislative experience, have the necessary skills and resources to restructure the current unitary state into a federal republic that meets public expectations will attract donor attention. There are also many unfulfilled commitments from the 2006 Comprehensive Peace Accord and other peace agreements, including the December 2007 23-Point Agreement, which must be implemented, including the formation of a Truth and Reconciliation Commission and a Disappearances Commission, as well as outstanding agreements with specific groups, such as the Madhesis and the indigenous nationalities.

Final Comment

¶16. (C) The April 10 Constituent Assembly election was a huge step forward for Nepal's peace process, but the hard work is

far from over. In some ways it is just beginning, and the
U.S. role here is as important as ever.
POWELL